



# HOUSE BUDGET COMMITTEE

## Democratic Caucus

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### Reaction to the Administration's New Budget Projections

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**After only eight months in office, the Bush administration has reversed the preceding eight years of fiscal improvement.** Until this year, the government's fiscal health had improved for eight years in a row, culminating in the largest budget surplus in history last year. Not coincidentally, those eight years also witnessed the strongest economy on record. Using President Bush's own numbers, the total ten year surplus has shrunk from \$5.6 trillion to \$3.8 trillion in eight months. In 2001, the budget excluding Medicare and Social Security has shifted from a surplus of \$99 billion to a deficit of \$31 billion.

**Although the President claims that the 2001 surplus is the second largest in history, there is no budget surplus outside of the resources being reserved to pay future Medicare and Social Security benefits.** In fact, House Republicans passed legislation making it illegal even to report budget figures that included the Social Security surplus.

**At the beginning of the year, the President repeatedly claimed that there was more than enough money for the tax cut, adequate funding of national priorities, and a contingency reserve for unexpected developments.** Now only a few months later, the President is trying to claim that the budget is in trouble because of excessive spending, even though the only spending bills passed have been at amounts that he approved.

**The 2001 budget deficit outside of Medicare and Social Security merely foreshadows the perilous fiscal course to which President Bush has committed the country for the next decade.** The real story is not the one-year invasion of the trust fund surpluses. That is just the first step of a multi-year budget centered on an exploding tax cut that will undermine Medicare and Social Security just as the baby boom generation is beginning to retire.

**Without any new spending above what the President has requested, the Bush budget invades the trust fund surpluses in 2001 through 2004.** When adjusted to remove a newly concocted accounting gimmick, the Bush budget wipes out the 2001 Medicare surplus and taps

into the Social Security surplus as well. If economic growth is even slightly below the robust pace the administration has assumed, the Bush budget will continue to spend all the Medicare surplus and some of the Social Security surplus for years to come. This is true even if spending is held to the levels that the President has requested.

**The Bush budget's invasion of the trust fund surpluses is a tell-tale sign that the overall Bush budget strategy is flawed.** It calls into question the credibility of the President's other budget promises, since he made the inviolability of the trust fund surpluses a hallmark of his agenda just a few months ago. Furthermore, both Medicare and Social Security face long-term fiscal challenges, and preserving the surpluses temporarily building in their trust funds is the least we can do to strengthen them.

**The President has gone back to the bad old days of using rosy economic assumptions to make it appear that his numbers add up.** The Reagan and first Bush administration both routinely issued economic forecasts well above the Blue Chip consensus of private forecasters. In the Clinton administration, OMB forecasts tracked the Blue Chip consensus quite closely. The administration forecast released today projects real economic growth over the next four quarters of 3.7 percent, well above the Blue Chip forecast of 3.4 percent and the Federal Reserve's expectation of 3.1 percent.

**The Republicans are piling gimmick upon gimmick to conceal the problems with the Bush budget.** In addition to the rosy economic assumptions released today, Republicans are:

- ▶ misrepresenting the true cost of the Bush tax cut by sunsetting all its provisions at the end of 2010,
- ▶ holding back any estimate of the true long-term cost of the President's contemplated defense buildup until next year,
- ▶ playing games with the accounting of Social Security receipts to make it appear that the Bush budget doesn't invade the Social Security surplus in 2001,
- ▶ delaying by two weeks the payment of corporate income taxes to make it appear that the Bush budget doesn't invade the Social Security surplus in 2002,
- ▶ pretending that the Medicare surplus doesn't exist, which to them paradoxically means that it can be spent.

**The explosion of the Bush tax cut's cost in coming years is keeping interest rates high and hindering an economic recovery.** The Federal Reserve has aggressively lowered short-term interest rates, but long-term rates, have barely moved. At a July 24 Senate Banking

Committee hearing, Fed Chairman indicated that the tax cut's impact on the surplus in future years has prevented a decline in long-term interest rates.

Senator Schumer: "One other thing you mentioned...you thought that rates hadn't come down enough was that the rate of decline of Treasury debt had been not as great as we thought...Is that due to the tax cut?"

Fed Chairman Greenspan: "I think it's basically to a series of things: one, the tax cut; two, expenditure increases which were higher than expected; and three, the economy."

Senator Schumer: "Right, so the tax cut did have a negative effect on this?"

Greenspan: "Oh yes, no question."